



DEMOCRATIC GOVERNORS' ASSOCIATION

November 21, 2003

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BJ Thornberry
Executive Director

Members of the United States Senate
U.S. Capitol
Washington, DC 20510

Dear Senator:

As you know, the near 700-page Medicare reform bill was unveiled yesterday. As a consequence, states have not thoroughly reviewed the language or seen individual cost estimates needed to make an accurate determination of its benefits and /or costs. Late yesterday, the Congressional Budget Office (CBO) released numbers portraying a net savings to states of \$17 billion over ten years. Notwithstanding this projected rosy scenario, neither CBO, nor any other independent entity has completed a state-by-state impact analysis of this legislation. Even CBO is projecting that states will be \$900 million in the red in the first year of the Medicare's program implementation in 2006. States need to ensure that their reading of the legislation confirms that the projected new state costs have not been underestimated by CBO.

With this in mind, we urge you to reject any effort to vote on this legislation before you know its full content and cost impact on your state and the people we both serve. To this end, CBO estimates on Medicare reform impact and expedited state reviews of the direct and indirect cost/savings impact from this legislation must be done and fully disseminated. Any rush to judgment, without this information, may have both short and long-term consequences that could prove to be irrevocably severe.

Early in the deliberations of the Medicare reform conference, governors were advised that at a minimum, the conferees were committed to ensuring that states would face no new costs as a consequence of the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*. This commitment was made for each and every state, for each and every year, of the ten-year budget. For this reason, we are writing to urge you to not vote on this legislation until it is absolutely clear that this assurance has been upheld.

In recent days, there have been reports that the new administrative and other indirect state costs of this program – combined with the bill's exceedingly high "claw-back" of state savings – would more than exceed any Medicare savings for many states. Such an unacceptable outcome

November 21, 2003
United States Senate
Page 2

would be in addition to another misguided policy, reportedly seeking to mandate states and the territories to permanently pay 75 percent of the current Federal prescription drug cost-shift to states. In 2006, the first year of the bill's enactment, states would have to pay 90 percent of these costs.

Some have already suggested that this is a poorly crafted bill and in the long run it would do more harm than good to the very population it was intended to benefit. Although some states are witnessing a small increase in revenues, most states will continue to experience budget shortfalls for the current fiscal year. Some analysts believe that the overall shortfall will likely be \$25 to \$40 billion. With the continued sluggish growth in state revenues, any increases in state costs imposed by this legislation would be yet another unfunded federal mandate, creating additional pressure on states to cut essential programs and/or raise taxes.

Similarly, any permanent continuation of the federal government's prescription drug cost-shift to states runs counter to existing National Governors Association (NGA) policy that, "if Congress decides to expand prescription drug coverage to seniors, it should not shift that responsibility or its costs to the states and territories" and establishes a damaging precedent.

Sincerely,



Governor Gary Locke
Washington
DGA Chair



Governor Tom Vilsack
Iowa
DGA Vice-Chair



Governor Bill Richardson
New Mexico
DGA Federal Liaison